CHAIN STORE AGE
MERCHANDISER

Drug chains have improved food marketing techniques

For the past several years, both drug stores and discount stores have been aggressively promoting and featuring grocery products to increase customer visits and build average store volume.

However, a recent study of grocery merchandising trends in nonfood stores show that drug store chains seem to be doing a much more effective job in capitalizing on food buying trends.

A Lebhar-Friedman Research project executed earlier this year shows that drug store operators frequently generate higher margins on grocery products. They carry smaller inventories, get much higher turns and consequently produce higher gross profit dollars.

Drug stores seem to be particularly effective when it comes to merchandising candy and snacks. According to the L-F research report, drug store chains achieve an average 23.6% margin and 11.9 turns on candy and snacks.

In contrast, discount store chains generate an average 16.3% margin on candies and snacks, while turns hover at a lethargic 5.9 year.

Despite their much smaller stores, drug stores also do a much better job with pet food items. Even though discount chains carry an average 165 pet food sku's and take margins as low as 14%, they only average 9.2 inventory turns a year.

Drug stores, on the other hand, carry an average 52 pet food sku's, enjoy margins as high as 19% and turn their annual inventory an average of nearly nine times a year.

Part of the reason drug chains do so much better is because they promote more often. Their prices are not necessarily sharper, but they advertise more.

According to the L-F survey, 67% of all the drug stores that carry candy and snacks promote them at least once or twice a month, while 29% promote them as often as once or twice a week.

However, only 50% of the discount stores that carry candy and snacks promote them as frequently as once or twice a month and only 40% promote them as often as once or twice a week.

Perhaps nowhere is this trend more evident than in the category of soft drinks. Forty-five per cent of the drug store respondents in the survey promoted soft drinks at least once or twice a month, while 55% promoted at least once or twice a week. In contrast, just 30% of the discount chains promoted as often as once or twice a month, while just 18% promoted as much as one to two times a week.

In addition to promoting foods, drug chains are also much better at exploiting the ease and convenience of shopping their stores.

Unlike discount stores, drug stores frequently use banners and window signs to announce they have food in their stores, and they frequently put their departments and their promotional food displays toward the front of their stores, near the cash registers.

Drug stores are also a more reliable place to shop for groceries. Much more than discount stores, they tend to carry many of the grocery items they promote on an everyday, continuity basis.

One hundred per cent of the drug store buyers who carry food/groceries stock some items like soft drinks and paper goods every day. Ninety-six per cent of those who carry household cleaners, candy and snacks carry them everyday, while 91% of those who carry beer, wine and liquor have them every day.

In contrast, the discount stores were much more inclined to move into a grocery category, promote it, sell through and then drop it from their stores. Their "in and out" approach to foods made it much harder for their customers to build a food buying habit.

When it comes to how fast space allocations for groceries are expanding in nonfood stores, drug and discount stores are practically neck and neck.

Six out of 10 of the grocery buyers in both industries report that allocations for groceries have increased over the past two years. Three out of 10 buyers in both industries report they expect the expansion to continue. Less than 5% in

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Food buyers surveyed

The information contained in this report comes from a telephone survey conducted by Lebhar-Friedman Research in early 1983.

Among the people interviewed were buyers of food and grocery products for both drug and discount store chains. Most of the respondents were employed by chains in the Top 100, but some also represent chains ranked in the top 200.

Included in the survey were a total of 40 grocery buyers working for drug chains and 40 working for discount chains. Basically the report focuses on seven merchandising categories: dry groceries, candy and snacks; pet food; paper goods; household cleaners; soft drinks, and beer, wine and liquor.

In many cases, the buyers were responsible for several of the categories we tracked. The responses, therefore, sometimes overlap. On the drug store side, the L-F research included responses from 24 buyers of dry groceries, candy and snacks; 26 buyers of paper goods and household cleaning items; 30 buyers of pet food items and 11 buyers of beverages.

On the discount store side, the study included 20 buyers of dry groceries, candies and snacks, 13 buyers of paper goods and household cleaners, 20 buyers of pet food items, and 11 buyers of beverages.

The average drug chain represented in the survey operated a total of 64 units and enjoyed an annual volume of approximately $91 million. The average discount store represented operated 88 units and had annual sales of about $562 million a year.

IT TAKES MORE THAN BIG CHESTS AND NICE JUGS TO ATTRACT CUSTOMERS.

We're doing everything imaginable to make Thermos® chests and jugs more appealing and noticeable than ever.

On television, we're showing them off in a commercial that's going to be an unqualified hit. You'll see it during everything from The Today Show to Family Feud.

In People Magazine our consumer advertising will reach millions of people.

New 4-sided self-sell packaging will more effectively display one of our best features: The Thermos name.

Our products have been redesigned and given a new look.

Rebates of up to $5 will also be offered on selected coolers. In short, Thermos is going to keep things hot for you all summer.

CHAIN STORE AGE
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Chains have improved food marketing skills

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both industries expect to see the departments decrease in size.

On average, drug store buyers say they expect that space for dry groceries alone will increase about 17% in the coming year. Discount buyers say they estimate an average 13% increase.

The growth estimates are more conservative for departments like candy and snacks, which have been in drug and discount stores for many years now. Those drug store operators who expect their candy and snack departments to increase in size estimate that allocations next year will grow by an average 15%. Discount operators who say they expect their food departments to also grow peg their estimated increase at a comparable 14% average.

Surprisingly, however, discount chains seem to be preparing to dramatically expand space allocations for paper goods and household products. Even though many discounters have traditionally been strong merchandisers of these lines, buyers estimate that departments will increase an average 30% in the coming year.

Drug chain buyers also see growth on the horizon, but not as dramatic. Drug store respondents peg average growth at 18% a year for both paper products and household cleaners.

On the other hand, drug chain buyers do see some very dramatic growth in beverage departments, which include wine, beer and alcohol as well as soft drinks. Respondents estimated a 35% increase in space allocations for beverages in the upcoming year vs. an estimated 23% increase seen as likely by the discount store buyers.

Drug stores carry less inventory than discount stores yet they turn more product at higher margins.

Mean number of items carried in dept.

	Drug	Discount
Dry groceries	110	279
Beverages	137	262
Candy/snacks	202	351
Pet foods	52	165
Paper products/ household cleaners	118	288

Source: Lebhar-Friedman research

Average annual number of inventory turns

	Drug	Discount
Dry groceries	11.0	7.4
Beverages	11.5	7.9
Candy/snacks	11.9	5.9
Pet foods	8.8	9.2
Paper goods/ household cleaners	10.2	8.0

Source: Lebhar-Friedman research

Average gross margin

	Drug	Discount
Dry groceries	12.5%	11.5%
Beverages	12.8	7.8
Candy/snacks	23.6	16.3
Pet foods	19.3	13.8
Paper goods/ household cleaners	17.8	15.2

Source: Lebhar-Friedman research

Circulars preferred ad media

When drug chains promote groceries, their favorite medium is tabs and circulars, with newsprint a close second.

Eighty-two per cent of the grocery buyers surveyed by Lebhar-Friedman earlier this year said they always or frequently use tabs or circulars to promote grocery items. Seventy-eight per cent said they also use newsprint to get their value message across.

In contrast, only 45% of the buyers said they ever used direct mail, just 20% ever used radio and a minuscule 15% chose television.

The trends are almost identical for discount store buyers who also purchase grocery items. Like drug store buyers, discount store buyers have a high preference for tabs, circulars and newsprint, but they are less likely to favor direct mail and more likely to gamble on radio and TV.

Only 28% of the discount store grocery buyers use direct mail, compared to 45% of the drug store buyers, while 32% of the discounters use radio, compared to 20% of drug store buyers. Twenty-eight per cent of the discounters also use TV, compared to 15% of the drug store buyers.

Not surprisingly, edible groceries receive more exposure in all forms of media than nonedibles like paper goods and household cleaners.

Ninety-six per cent of the buyers said they run beverage ads in tabs and circulars, compared to just 80% of pet food and paper goods/household cleaner buyers. Dry groceries, candies and snacks are also a popular tab item.

Beverage is the most commonly chosen item for radio or TV. Dry groceries, candy and snacks are relatively strong contenders for TV, while paper goods and household cleaners seldom generate that kind of support.

Generally when a drug or discount store buyer runs an ad, he also elects to support products with in-store, off-the-shelf displays. Eighty-five per cent of the drug store buyers and 92% of the discount chain buyers said they always or frequently run an ad and feature a display together. There is a general consensus that to insure a perfect sell-through, grocery products particularly need that double-barreled support.

However, discount chains are

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Folgers
Bounty
Pampers
Tide
Scope
Folgers Vacuum
Ivory Liquid
Head & Shoulders
Duncan Hines Cake Mix
Crisco Oil
Cascade
Secret
Crisco
Crest
Duncan Hines Chocolate Brownies
Duncan Hines Cookie Mix
Comet
Puf
Duncan Hines Blueberry Muffins
Downy
Jif
Ivory
Charmin
Our blue ribbon brands.
They can be winners for you, too.
Look at these brands, and you'll recognize some of the outstanding performers in your stores.
You know that we have quite a track record for fast-selling brands at P&G. But you may not know that of 28 grocery categories where we have major brands, we have a leading seller in 24 of them.
This kind of performance is more important than ever—to both of us.
When you're planning promotions, they can sell through more quickly and pull in more customers if you build them around popular, fast-moving brands. Like our leading brands.
And you'll recognize that many of these brands are not only great performers in their own right, but they have increased business *for the entire category.*
But fast-moving products are just one place where our interests clearly coincide.
We want to become knowledgeable about your objectives in such areas as merchandising, shelf space management, and store productivity—so we can work together as partners to help us both reach our goals.
Procter & Gamble
We hear you.

CHAIN STORE AGE
MERCHANDISER

High-velocity consumables build chain traffic

For many drug retailers, selling food on an in-out basis is a sure-fire method for building traffic.

By offering high-velocity consumable items such as nuts, cake mixes, ketchup, soft drinks and juices to price-conscious consumers, drug chains are able to preserve their low-pricing image.

At the same time food, as a traffic draw, allows drug chains to attract new customers. It also helps steer consumers, who may be considering purchasing an H&BA product in a neighboring supermarket, away from the food store and into a drug store. And, by its very presence, food frequently helps to bring bargain hunters back to shop more often.

Despite the fact that the food inflation rate has slackened considerably in 1983, buyers of food products for drug chains estimate their sales are continuing to grow at rates generally ranging from 10% to 20%.

In 1982, according to *Drug Store News'* annual survey of drug chains, food and liquor sales through drug stores increased 6% to $1.6 billion. At the very least, buyers say they will definitely match that growth in 1983.

Many buyers say the growth is continuing strong because many shoppers have become habituated to buying food in drug stores.

"I think out customers look for the food items we have now," says Bill Ausenbaugh, executive vp of marketing at the Indiana-based Ribordy Drugs.

And because food wholesalers and manufacturers are making a much stronger thrust into the nonfood market, Ausenbaugh says, Ribordy has been able to step up its food promotions considerably. The chain's weekly circulars regularly feature three to four grocery items.

Most drug retailers say the key to selling promotional food is to stick with the top-selling national brands, avoid direct competition with local supermarkets and always be on the lookout for the best possible deal.

Medi Mart, a division of Stop & Shop Cos., promotes grocery products an average of every two weeks. Food buyer Bob Gallagher says he always tries to select those products that yield the optimum mix between traffic and profits, especially for sales periods when he is featuring a large number of food items in Medi Mart ads.

Because there are are often "fantastic deals" available for consumable items in the food business, Gallagher feels "you can be priced competitively and still make a decent margin."

"If I am offering 12 to 13 consumable food items, I've got to make some money," he says. "I think that anyone that takes the approach that food is only a loss leader is missing out."

By Gallagher's estimates, Medi Mart has been most successful with such high-consumable food items as jellies, pickles, relish, salad dressings and ketchup. While the chain generally gets a 90% sell through, residue from promotions has been a problem.

Across the country, small-, medium- and large-sized drug chains are expanding their food promotion programs. A recent survey by Majers Inc., a Connecticut-based market research firm, revealed that 73% of executive retailers think there will be a substantial increase in sales of food and beverages in chain drug stores.

In some cases, chains such as Seattle-based Pay 'n Save have used promotional food as a stepping stone for further tests of mini-convenience food departments.

Other chains such as Rhode Island-based CVS, which rarely promoted food in the past, are increasingly featuring grocery items such as soda, juices and snack foods.

One of the most astute promotional food merchandisers is Dart Drug, based in Landover, Md. For years Dart has successfully moved large volumes of food and grocery products out the doors of its 71 drug stores in an area that is considered by many to be one of the most competitive grocery markets in the country.

Although Dart has been expanding its everyday grocery merchandising mix, it still carries most of its products on an in-out basis with margins generally averaging 10% to 20%.

Like many drug chains, Dart usually promotes only when manufacturers have extra incentives for buying the product.

Circulars preferred ad media

One-third of nonfood retailers increased grocery promotions

Estimate of ad dollars spent on grocery this year vs. last	% of respondents	
	Drug	Discount
More	37.5	37.5
About the same	52.5	42.5
Less	5.0	7.5
No answer	5.0	12.5

Source: Lebhar-Friedman research

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more likely than drug chains to build a display without a feature ad. Possibly because discount stores generate higher traffic counts than drug stores and can therefore depend on higher impulse sales, some 55% of the discount store respondents said they always or frequently build a display without backing it with a feature ad. Only 30% of the drug chain buyers said they follow this tactic.

Buyers of paper goods, household cleaners, dry groceries and candies and snacks are more likely to execute this particular strategy than their counterparts promoting beverages and pet foods.

As you might expect, very few buyers ever dare run an ad on beverages and not back it up with a display. However, 18% of the paper goods and household cleaner buyers say they frequently or always follow this approach.

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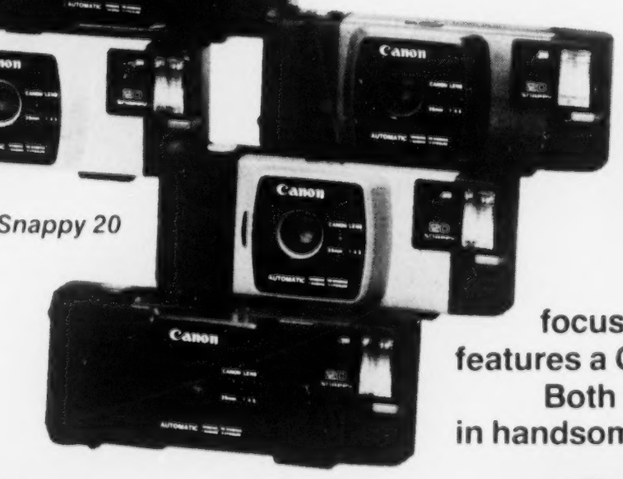
Snappy is being heavily advertised on network TV in prime time and in national magazines such as *PEOPLE* and *GOOD HOUSEKEEPING*, with a hard-hitting campaign designed to bring Canon quality within the reach of millions of additional customers. You can tie-in to this national effort with a wide variety of point-of-sale materials available for your stores.

Totally automatic and designed for foolproof operation, Snappy cameras are simple to use and simple to sell. You get more sales, the customer gets better pictures!



Snappy 20

Snappy 50

Canon Snappy cameras are completely automatic, with motorized film loading, automatic frame advance after each shot, power rewind, automatic exposure control and a built-in electronic flash. The Snappy 20 comes in five terrific colors and features a fixed-focus Canon f4.5 lens. The deluxe Snappy 50 comes in charcoal gray and features a Canon f3.5 lens with autofocus.

Both models are supplied with color-coordinated carrying cords and packed in handsome self-display boxes. And both give your customers better pictures!

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CHAIN STORE AGE
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FM reader forum

FM is now an extension of Drug Store News *and has reduced its publishing frequency from four times a year to two. We will maintain the reader forum we launched in the quarterly FM, and we hope our readers will continue to send us their ideas and suggestions.*

The purpose of the Forum is to explore—from as many points-of-view as possible—those ideas and strategies that make food programs profitable and successful.

How to build a profitable pet food program

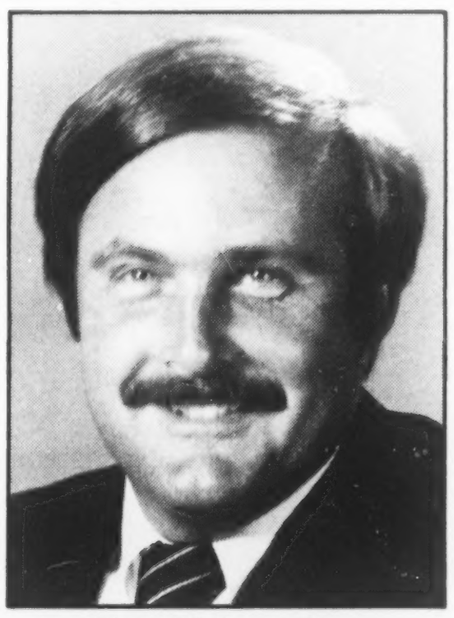
Pet food is a popular feature in many drug store ads, but the fact that pet food turns fast doesn't necessarily mean pet food always makes money. To stay profitable within the category, drug store operators need a carefully planned pet food program.

In the column that follows, Tom Mainwaring, national sales manager for Carnation's Special Markets division, offers some ideas for building a rounded pet food program.

It's estimated that over 45 million households currently own a dog or a cat—that's approximately half the customers now shopping in drug and mass merchandise outlets.

Pet food has proven itself in the mass merchandise environment because it's such a substantial category. Sales topped $4.6 million in 1982, a 7% increase over 1981. Tonnage was up 2.6% to more than 9 billion lb., and pet food now ranks as the third-largest category in supermarkets.

With industry advertising reaching close to $200 million a year, many nonfood retailers are beginning to take advantage of the store traffic this category can generate. Yet to fully develop the sales and profit potential of pet foods, retailers need to develop a marketing strategy that exploits both the short- and long-term potential of pet foods. Just to promote the category is not enough. Such a strategy yields tonnage, but not necessarily profits.



Tom Mainwaring
National sales manager
Special Markets division
Carnation Company

To maximize profits as well as sales, retailers need to establish permanent pet food sections. They also need year-round promotional programs.

Regular pet food ads help to accustom shoppers to buying food in a drug store environment. Sharp prices on the advertised product create a pleasant "image" for the store by creating an impression of value.

It's important to have a good cross section of dry pet foods because they're so heavily used, but the more canned goods sold, the more profitable the section will be, and the better the section's return on investment.

Canned pet foods normally generate a higher profit per square foot, and their extraordinary responsiveness to multiple pricing makes them natural candidates for Dollar Day and Anniversary sales, occasions when the marketing objective is volume, volume and more volume. The canned product also takes up less space both on the shelf and in the backroom.

Pay Less, Walgreens, Longs, Dart and Perry all promote and stock pet foods on a regular basis.

Through creative merchandising, which includes regular ads and displays, the chain drug operator can build a loyal group of consumers who will shop the section year around. The add-on traffic then produces the turns that fully maximize the retailer's investment.

Drug, discount chain food departments grow in size

In the past two years, the majority of grocery buyers for both drug and discount chains report that their grocery departments have been steadily increasing.

Six out of 10 buyers for both industries report that grocery departments have increased in their chains, and 3 out of 10 predict that this trend will continue at least for the near future.

Beverage buyers predict the most dramatic growth in the year to come. Among buyers who expect their department to grow, the average estimated an increase of 35%.

Discount chain buyers who also sell soft drinks, wine, beer and alcohol, estimate an average growth of 23%.

In drug stores, the next fastest growing category is pet foods. Buyers who estimate their department will increase peg its growth at an average of 24%. Those discount store buyers who think it will increase expect it to go up only about 9%.

Among drug chain buyers who think their dry grocery, candy and snacks and paper goods and household cleaners will grow, the estimated rates of increase are 17%, 15% and 18%, respectively.

However, only 23% of drug store buyers expect paper goods and household cleaner departments to grow over the next year. Significantly only 50% reported growth increases for this department in the past two years.

Average expected increases in space allocations for '84

	Drug	Discount
Dry groceries	17%	13%
Beverages	35	23
Candy/snacks	15	14
Pet foods	24	9
Paper products/ household cleaners	18	30

Note: Respondents include only buyers who expect increases in space.

Source: Lebhar-Friedman Research

Grocery buyers estimated space allocation changes for next year

	% of buyers responding					
	Drug			Discount		
	Inc.*	Remain the same	Dec.†	Inc.*	Remain the same	Dec.†
Dry groceries	33%	63%	4%	30%	65%	5%
Beverages	18	82	—	18	82	—
Candy & snacks	42	58	—	20	80	—
Pet foods	17	73	10	20	70	10
Paper goods/ household cleaners	23	77	—	15	85	—

Source: Lebhar-Friedman Research * Increase † Decrease

This announcement is neither an offer to sell nor a solicitation of an offer to buy these securities.
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September 16, 1983

S-P DRUG CO., INC.

1,750,000 Shares

Common Stock

Price $15 Per Share

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